



Final Minutes
Endowment Fund Investment Board Meeting
May 9, 2006

A regular meeting of the Endowment Fund Investment Board (Board) was held in the Board Conference Room at 816 W. Bannock Street, Ste. 301, Boise Idaho on May 9, 2006. Chairman M. Dean Buffington called the meeting to order at 9:45 a.m. and recognized that a quorum was present.

Members Present:

Dean Buffington
Gavin Gee
Representative Bill Deal
Vaughn Heinrich
Tom Kealey
Senator Brad Little
Susan Simmons
John Taylor (9:52 a.m.)

Staff Present:

Larry Johnson
Chris Halvorson
Andy Potter
Judy Shock

Legal Counsel:

Julie Weaver

Members Absent:

Richelle Sugiyama

Guests:

Eric Micek, RBC Dain
John Pickett, RBC Dain
Doug Bates, Clearwater
Kathy Rich, Nicholas Applegate (10:01 a.m.)
John McGraw, Nicholas Applegate (10:01 a.m.)
Justice Burdick (11:16 a.m.)
Corrie Keller (11:16 a.m.)
Jae Hallett, Eide Bailly (1:55 p.m.)
Bobby Lawrence, Eide Bailly (1:55 p.m.)

Hard copies of board materials were mailed and delivered one week prior to the scheduled board meeting, and a meeting notice was posted on the door of the EFIB office beginning May 2, 2006.

Board Meeting Minutes: Approved

Representative Deal made a motion that the minutes of the February 17, 2006 meeting be approved as submitted. The motion was seconded by Mr. Gee and approved unanimously (pg. 12 of the minutes distributed showed printer errors – due to insufficient printer memory. A second set of minutes were re-printed and distributed to board members.)

Client Updates – RBC Dain:

Endowment Fund - Mr. Pickett stated that the current status of the Endowment Fund is satisfactory based upon the goals and policies outlined in its various mandates. He indicated that the overall performance of the portfolio is doing well, with all managers above their benchmark, and/or peer group for the trailing 3-year period, except for Marvin & Palmer. As stated on page 16 of the board packet, both Oppenheimer and Marvin & Palmer remain on the watch list, but may be removed in the next few months if performance remains strong.

Mr. Pickett also noted that on page 26, Metropolitan West was sold to Evergreen Asset Management, which is a subsidiary of Wachovia. He stated that there are no asset allocations out of target. All managers are staying within the investment policy. Mr. Johnson said that a review of the investment policy would be done this summer now that the EFIB's new investment officer, Chris Halvorson, is on board.

Manager Presentation – Nicholas Applegate

Mr. Johnson introduced Kathy Rich and John McGraw of Nicholas Applegate. Ms. Rich and Mr. McGraw provided an update on Nicholas Applegate. Booklets were handed out for review.

Client Updates – RBC Dain:

State Insurance Fund - Mr. Pickett stated that the current status of the State Insurance Fund is satisfactory based upon investment goals and policies outlined in its various mandates. Overall performance is well with all active managers above their benchmark and peer group for the trailing 3-yr. period. He visited with Jim Alcorn recently and discussed the addition of an International Equity mandate to further diversify their portfolio.

Board and Staff Organization:

Mr. Johnson mentioned that a new Division of Financial Management analyst, Maria Barratt, has been assigned to the EFIB and introduced the new Investment Officer, Chris Halvorson. Mr. Johnson covered Committee Assignments for the Audit, Compensation and Executive Committees and the Independence Statement forms included in the board packet. Members present signed their copies for their respective personnel files.

Mr. Johnson mentioned that he is considering revising/upgrading the level of reporting by the EFIB to the Land Board. Mr. Johnson has invited Land Board staffers to special investment manager presentation meetings to help ensure a good line of communication with the Land Board.

Justice Burdick and Corrie Keller arrived at 11:16 a.m.

Client Updates – RBC Dain:

Judges' Retirement Fund – Mr. Pickett stated that the current status of the Judges' Retirement Fund is satisfactory based upon investment goals and policies outlined in its various mandates. The overall portfolio is performing well with all active managers above their benchmark and peer group for the 3-yr trailing period. However, given the unfunded liability and shortfall in contributions, Mr. Pickett indicated that the current asset allocation and the overall health of the Judges' Retirement Fund would be reviewed as part of the asset/liability study currently underway. The study should be completed in the next month.

Justice Burdick noted an actuarial valuation would be done annually as long as the plan is under funded.

Two pieces of legislation related to the Judges' Retirement Fund: HB628 and SB1408 are included in the board packet on pages 65-71. Mr. Johnson indicated that the cover memo for that section was in error – judges were given only a 6.1% salary increase in FY2007. The Board, Corrie Keller and Justice Burdick discussed reasons why the legislation increasing contribution rates did not pass. Mr. Keller indicated that a “white paper” would be developed to explain the rationale for the increase and certain misconceptions regarding the Judges' Retirement Fund. RBC Dain's asset/liability work may be of some use in that regard as well.

Justice Burdick and Corrie Keller departed at 11:56 a.m.

Chairman Buffington requested a break at 11:57 a.m. At 12:20 p.m., lunch break ended and the meeting resumed.

EFIB Staff Reports

Mr. Johnson spoke on the *Sexual and Discriminatory Workplace Harassment Policy* from the Policy Manual. The policy was reviewed by the board members and staff and Chairman Buffington reminded all present that the EFIB takes this policy very seriously.

Comparison of Idaho with Other States

Mr. Johnson presented comparison reports on Public School Endowments for various states, which were compiled from a survey by an education lobbying group called CLASS (Children's Land Alliance Supporting Schools).

Market Value, New Money and Budget Reports

Mr. Potter covered the two EFIB quarterly reports on market value and new money. It was discussed that when EFIB reaches one billion, a press release should be sent out. Included in the press release should be how much has been distributed to beneficiaries. Presently the market value is at \$992 million.

There was discussion regarding the need for more accurate revenue projections from the Department of Lands.

Mr. Potter reviewed expenditures versus budget and the agency is performing well. We are projected to end the fiscal year with surpluses in both personnel and operating expenses.

Capital Projects:

Security: Mr. Johnson mentioned that, pending resolution of certain contract issues, a monitored security system will be installed in the EFIB office.

Board Room Expansion: Mr. Johnson presented this issue to the board, with the recommendation that the EFIB would accept an annual cost of \$2,000 for the additional 110 square feet or \$4,000 for an additional 390 feet. There could be an option of leasing the conference room to tenants, to bring in revenue.

Mr. Taylor made a motion recommending the modified proposal of the boardroom expansion be negotiated with the Department of Lands. The motion was seconded by Mr. Heinrich and approved unanimously.

Gift Log:

Mr. Johnson presented the Employee Gift Log from February 16 – April 30, 2006. Chairman Buffington also reported he had completed his review of Mr. Johnson's timesheets and that there was no travel expenses since his last review of those items prior to the February board meeting.

EFIB Policies:

Mr. Johnson indicated that the Mission, the Spending Policy and the Annual Administrative Duties Procedure, along with the investment policies for EFIB's three clients, would be presented for review and approval at the next board meeting in August.

Included in the board packet were the following updated policies – Mr. Johnson stated that the review dates would change on these policies:

Internet Use and Electronic Mail Policy – The board asked that the last section be revised. Inappropriate emails sent should be deleted and a reply sent separately requesting the sender to not send these types of emails.

Sexual and Discriminatory Workplace Harassment Policy

Workplace Violence Policy

Air Pollution Response Policy

Salary and Leave Policy – It was requested that this policy be revised to reflect the July 1 effective date for the \$2,000 bonus level.

Problem Solving and Due Process Policy

Reasonable Accommodations Policy

Drug Free Workplace Policy

Purchasing Policy

Audit Policy – It was discussed if there was a provision to terminate an auditor. Also, discussed if the new RFP is required every five years (#1 under "Audit Contract"). As well, #2 regarding extensions should be stricken. This policy will be resubmitted for approval in August.

Records Management

Public Information, News and Media Policies

Batch Review Procedure

Reconciliation Procedure

Representative Deal made a motion to approve the above policies as revised. The motion was seconded by Mr. Taylor and approved unanimously.

The board requested that a Policy Index be supplied for the policies, which are being reviewed.

The board discussed the Spending Policy and annual distribution for the Capitol Endowment Permanent Fund.

Representative Deal made a motion authorizing the distribution of 5% of the FY2005 ending balance of the Capital Permanent Fund (i.e., \$413,132) effective July 1, 2006. The motion was seconded by Senator Little and approved unanimously.

Senator Little commented on the style and easy readability of the monthly Investment Performance Report.

Executive Session

Mr. Gee made a motion that the board enter Executive Session pursuant to Idaho Code § 67-2345 (1) for the purpose of considering the hiring and contract renewal of agents providing professional services and consulting services to the Board, and for evaluation of personnel. The motion was seconded by Ms. Simmons and approved unanimously. The board went into Executive Session at 1:40 p.m.

The roll call vote was as follows:

Chairman Dean Buffington – Aye

Representative Bill Deal - Aye

Senator Brad Little - Aye

Susan Simmons – Aye

Gavin Gee – Aye

Vaughn Heinrich - Aye

Tom Kealey – Aye

John Taylor - Aye

Bobby Lawrence and Jae Hallett, Eide Bailly arrived at 1:55 p.m. for EFIB Audit meeting immediately following the board meeting.

The board ended executive session at 2:01 p.m. A motion to return to regular session was made by Representative Deal and seconded by Mr. Taylor and approved unanimously,

Mr. Kealey made a motion for Mr. Johnson to negotiate the contract renewal terms with RBC Dain for the next contract year. The motion was seconded by Representative Deal and approved unanimously.

Mr. Heinrich made a motion to approve \$1,000 bonuses for Larry Johnson, Andy Potter and Judy Shock for this fiscal year. The motion was seconded by Mr. Kealey and approved unanimously.

Mr. Heinrich made a motion to approve salary increases effective July 1, 2006: increase Judy's salary by 3%, Andy's salary by 1.5%, and Larry's salary by 3%, all contingent upon the allowable caps being developed by DHR. If the caps prove limiting, the board would defer to the board chair for final determination of the increase or bonus. The motion was seconded by Mr. Kealey and approved unanimously.

Adjournment

There being no further business to come before the Board, Mr. Heinrich made a motion to adjourn, which was seconded by Mr. Gee, and passed unanimously by members present. The meeting adjourned at 2:03 p.m.